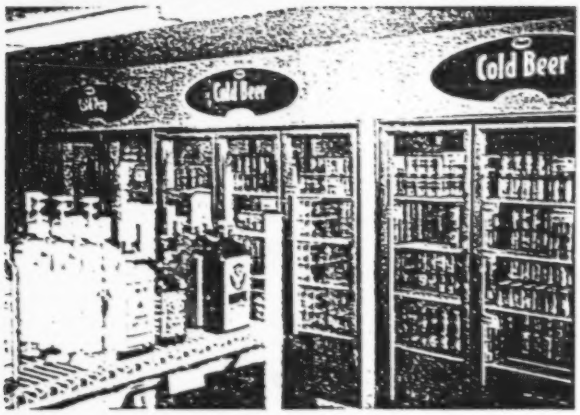
Nova Scotia Liquor Corporation

Agency Store Review



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September 19, 2002

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Section 1 The NSLC Program Review

1.1 Introduction

In the fall of 2000, the Minister responsible for the Liquor Control Act, the Honourable Rodney MacDonald, announced a new Nova Scotia Liquor Corporation (NSLC) Agency Store Program. It was a means to increase service to the remote communities of Nova Scotia where full service NSLC outlets were not feasible. The program was supported in Bill 20, which was passed by the government in the 2nd Session, 58th General Assembly.

Through a public tender process, eight locations were selected. The following stores were awarded the contract to market NSLC products in their communities:

- Calder's Convenience Store, Advocate
- Dominion Chair Convenience Store, Bass River
- Ossingers Grocery, Freeport
- DJ Corner Store, French Shore area
- Needs Convenience Store, New Ross
- Celtic Corner Convenience & Gas Bar, Iona
- Green Gables, Wentworth Valley
- Co-op Atlantic, Whycocomagh

These outlets began operations at various times in 2001 and are near completion of their first year of operation. It is believed that this is an appropriate time to do a preliminary review of the program.

1.2 Background

The Nova Scotia Liquor Corporation must achieve its fiscal targets and contribute funds to public accounts for the government to deliver on its programs. It must deliver a high level of service to its customers and contribute and encourage the growth of a vibrant industry while maintaining a social responsibility mandate. Historically, this has been a highly regulated industry with little room for marketplace freedoms. Last year, the province changed the legislation that allowed the corporation to launch an agency program where private agencies were given the right to market traditional NSLC products in remote regions of the province. While the number of agencies was small, it was-a significant change to public policy. This change has implications that can reconfigure the distribution retail network of the NSLC. The challenge to the organization must be to achieve the correct balance among several factors such as:

- Continuously improve service to the customer.
- Establish a store network to an optimum level of configuration that will address the fiscal objectives of the province with the most effective of use corporate resources.
- Recognize the value of its employees and define their appropriate position in the industry value chain.

- It must provide a governance framework for the industry to ensure that its participants continue to prosper in an equitable and competitive manner.
- It must deliver on these factors within the context of maintaining the socially responsible mandate of the corporation.

1.3 Study Objectives

The specific objectives of this study were as follows:

- Review the status of the program objectives of service and convenience.
- Determine if the agency store sales were incremental or cannibalized from existing NSLC stores.
- Assess the business model and determine if it is generating expected profit levels for agency stores.
- Analyze a financial breakpoint where the decision can be made for future stores to be agency or corporate.
- Review the impact/additional costs on existing NSLC stores that are now functioning as a "warehouse".
- Comment on whether the social responsibility elements of the NSLC has been compromised by these agency stores.
- Present any conclusions and recommendations for program improvement for the future.

1.4 Project Methodology

The approach to this report was founded in a Statement of Work that was accepted by the NSLC management team. The project was carried out from June to August of 2002 and included the following stages:

Stage 1	Background review and interview questions construction
Stage 2	Interviews of stakeholders
Stage 3	Statistical collection and analysis
Stage 4	Draft report with recommendations and review
Stage 5	Submit final report and executive presentation

1.5 The Stakeholders

The following stakeholders were targeted as candidates for interview and input into the program:

- NSLC Management
  - Mr. John Strickey, Vice President, Store Operations
  - Ms. Sheila O'Leary, VP Finance
- Business Associations
  - Atlantic Brewers Association: Krista Jenkins

Cdn. Restaurant & Foodservice Association: Luc Erjavec
Wine Industry of NS: Doug Corkum, St-Famille Vineyards
Tourism Industry Association: Judith Cabrita

- Agency Store Owners
- Licensees (purchasing and non-purchasing)
- RCMP Detachments
- Dept of Tourism
  Ms. Michele McKenzie, Deputy Minister, Department of Tourism
- Nova Scotia Government Employee Union

1.6 Management Advisory Committee

The management and direction of the project was provided by the following management committee that consisted of:

- Mr. Andy Barker, President, NSLC
- Mr. Bruce Rogers Vice President, Retail Services
- Mr. Greg Beaulieu, Senior Policy Analyst, Dept of Tourism

The committee held an initial meeting where scope was confirmed and procedures for project engagement discussed. A meeting was held every two weeks where preliminary findings were presented. Finally, a draft report was tabled and reviewed where input was gathered for the final draft that was accepted in September. (In August, Mr. Bruce Rogers retired from the organization).

Section 2 Program Objective – Improved Service

2.1 Introduction

The objective of the agency program is within the legislation and is simply to increase service and convenience to the residents and visitors of the province of Nova Scotia. This simple but effective message is well understood by all members of the NSLC executive team and other stakeholders and should prove as a fundamental cornerstone to the expansion of the program if the organization so chooses.

The agencies in the remote regions clearly have achieved the simple goal of improved service and convenience. This is reflected by the views from the various stakeholders. When asked about the comments from their customers, the agents suggested there was a resounding positive agreement with such phrases as:

"Its great and about time."
"99.9999 % are very happy to have the store in this location."
"Some had concerns at the beginning because it was a convenience store and there were many kids in the area, however, there have been no problems."
"Tourists are very happy and had trouble believing that the nearest liquor store was 30 miles away."
" ... Have not heard one negative comment."

2.2 Service is more than Proximity

The service improvement is thought to be more stores or points of access, covering a larger geographical area that provides service in closer proximity to its customers. However, the reality is that the level of service and convenience has improved in many ways. The agency hours of operation are traditional convenience store hours. All but one store report openings of 7:00 or 8:00 in the morning and closing at 9:00 to 11:00 at night. These hours are maintained for seven days per week and provide access to alcohol purchases for all times except Sunday.

These agencies are convenience stores with the traditional convenience store product lines including tobacco and lottery ticket sales. The Whycocomagh agency is a Co-op store and provides a full line of products including meats and produce. This range of products provides greater convenience to the consumer since it provides one stop shopping for a variety of items. Customers are given the opportunity to purchase alcohol and their complementary items such as soft drinks for mix and ice, with other daily common products such as milk and bread, in one shopping trip.

2.3 Agency Store Limitations

While the agencies provide the most popular brands of alcohol products, there is a limitation to the variety of products that are normally found in a NSLC corporate store.

All stores carried popular brands of beer, alcohol, wine and coolers. There is a significant limitation on the variety of wine and liqueurs in all agencies. However, each store operator confirmed they maintained the service of ordering special products for regular repeat clients. While this is a limitation, one customer said

> *" ...it is a great service and I am prepared to live with the limited variety since I don't have to drive to Truro ... a half hour away".*

The agencies are new to the distribution of alcohol products and they are quick to acknowledge that the staff knows very little about these product lines. Some believe this is not a problem since most customers know exactly what product they want and the product "sells itself". Others look for a wine that will complement their meal and would like a little more information. Currently, only a few staff may know the basic information such as whether it is a dry or sweet wine. This is slowly changing. The staff is learning more through various activities including knowledge from clients who request special products or representatives from suppliers. However, there is a general consensus that the staff does not have a high level of product knowledge.

2.4 Service to Licensees

Finally, three agencies are marketing to licensees in their respective areas. (Two were not aware they were allowed to sell to licensees). Based upon discussion with these licensees, the closer location is attractive since it means there is a lower cost for transportation and delivery. This is clearly illustrated with the Freeport agency where licensees, such as the Brier Island Inn, do not have to pay transportation costs from Digby. The variety and quantities of products carried by the agencies were restrictive at first. However, as the agents continue to develop the relationship with these licensees, the licensees are placing their orders in advance. This gives the agencies the opportunity of ensuring that have the correct inventory levels and products on hand.

Based upon the various interviews of agencies and licensees, it is clear that the service and convenience mandate has improved for both the purchasing public and for licensees. The close proximity of service is the most significant element to improved service to the consumer. However, extended store hours and the convenience of one stop shopping for other products, especially complementary products, contribute to the higher levels of client satisfaction. The close proximity for the licensee means delivery costs are decreased and the service from the agencies continues to improve. It is clear that customers are prepared to accept a limited variety for the convenience of location. This does not appear to be a deterrent since customers in remote regions are commonly faced with limited varieties of other products. It is normal for these customers to take a shopping trip to a major center on the weekend for groceries, clothes and other items that are not readily available locally. In general, there is a very positive acceptance of the agencies and the convenience that it offers its customers.

Section 3 The Stakeholders Findings

3.1 Introduction

This section is a summary of the interviews from the many stakeholders contacted during the project. The methodology utilized an open-ended set of questions which established a dialogue with each. At the end of interview, a summary of the salient points was reviewed for confirmation purposes. Complete details of the interviews can be found in Appendix A.

3.2 Agency Responses

3.2.1 Agency Introduction Process

The agents competed through a public tender process and were notified of their success by representatives from the NSLC. Each agency entered into a five-year contract with specific terms and conditions that were drafted by the NSLC and similar to other provinces. The NSLC held a one-day introductory seminar that was viewed very positively by the agents. The seminar was based upon a review of The Agency Store Manual that provides a foundation for operational procedures and guidelines.

During the interview process, there were mixed reactions to the sales projections that were provided to the agencies by the NSLC. Some indicated that the projections were very accurate while others indicated they were higher than expected. Each agency appeared to have separate estimates and developed their own business plan. As a result, there were no adverse effects from the initial projections.

One other recurring comment from the agents was the ability of the agency to return product during the start-up period. The agencies were embarking on a new business initiative and cash flow was significantly impacted due to opening inventory costs and other additional investments. The return policy alleviated the perceived risk and provided confidence during the early stages.

3.2.2 Order and Delivery - Host Stores

The program was based on an approach where each agency was assigned to an NSLC corporate store or host store although they were given the flexibility to purchase from any store in the network. From the interview process, all agencies indicated they primarily purchased from the host store with very few purchases placed with alternatives. This host approach appears to be well received by the agencies. Comments made about the local host store manager and staff was very positive as indicated by the following:

"Raymond and the Meteghan store are very helpful and supportive."

"I know the manager, we both live in Parrsboro and all is well."

"Generally, the order process is straight forward and business like."

These comments are generally based upon the support they have received on order processing and returns. During the early stages of the program, the agents were notified to provide weekly lead times for order processing and deliveries. This would provide adequate notice to the host store for its ordering process. Over time, the agencies began ordering on a regular basis and the host began to carry more inventories. During the summer months, the demand for alcohol products increased and orders were placed more frequently. This was due to a lack of floor space in the agency, cash flow restrictions or lack of historical knowledge of the trends for the demand. The host stores appeared to accommodate this trend and reacted with higher levels of inventory.

The agencies are concerned about breakage of products. Since the margins are lower than other product lines, breakage reduces profits. One agent commented that fifteen cases of beer must be sold to replace the profits for one broken case. While there is a policy regarding breakage, the local store managers have displayed leniency and replaced the broken product with another.

In the beginning, there was some concern by the agents that the host store staff would display some resentment to the agencies. It was thought that the agency would take business away from the corporate store. Clearly, the management of the NSLC communicated the message that the agencies are customers and need to be treated in that fashion. Currently most agents have seen no resentment towards them. They attribute this to their belief that agencies have increased the sales of the host stores.

When alternate sales and distribution channels exist in a delivery network, channel conflict is common and must continually be managed through policy and communications. Two agents have made comments regarding resentment during the interviews indicating the need for clear guidelines in time of conflict. One agency first encountered resentful behaviour when the agent showed up on a Friday and wished to place an order and have it filled immediately without notice by the host. The order was filled but the agent felt a little resentment demonstrated by the staff. The second example was from another agency that wished a small order filled by a store. This store was not the normal host store and was not prepared for orders of any magnitude. The order was filled for the agency. In both cases, the agents made these comments without strong objection. Generally, they were quite satisfied with the respective relationships and services.

3.2.3 The Clients of the Agencies

The agency program was based upon the premise that the agents knew their clients, their marketplace and their business. The management of the NSLC adopted the principles that it should not dictate how to run their business. During the interview process, it was clear that the agents understood their clients and business and were enthusiastic about expanding their operations with the NSLC product lines. Most agents have many years

experience in their respective marketplaces and identified several types of customers with specific demands upon their business. They include:

- *Local residents* in all agency territories who provide a constant stream of business during the entire year.
- *One-day tourists* are common through all of the agencies with more in some areas of the province such as the Salmon River agency outside Yarmouth.
- *Cottagers* are common in those lakeland areas and around the coast. They either reside during the entire summer season or visit the area mainly during the weekends. In many cases, they have visitors for short stays who visit the agencies and purchase wine as a gift for their host.
- *Bootleggers* are common in each region and have provided a service to the rural marketplace for many years. They market their products during the after-hours periods, Sunday, and to underage customers.
- *Licensees* are customers for three of the agencies. Those licensees range from seasonal restaurants, to year round inns, to local Canadian Legions and Lion's Clubs.

3.2.4 Consumer Purchasing Behaviour

This study tried to validate that the location and convenience of the agency generated new sales of NSLC products rather then take sales from the corporate store. While a study of the purchasing consumer was not within the scope of this study, agents shared their views on consumer purchasing behaviour. A series of messages were collected which include:

- Good weather brings more store traffic.
- Summer months increase business.
- Customers rely less on planned shopping trips to major centers.
- Customers purchase more frequently due to location and convenience.
- Customers who purchased from bootleggers have more to spend at the agency.
- Friends visiting cottagers in the local area will purchase regularly.
- Tourists in the area frequently purchase alcohol products.
- Repeat customers will request specific brands.
- Licensees buy because of location and reduced transportation cost.

These consumer messages seem obvious but do not afford the conclusion that the agency business is totally incremental to the existing network. Intuitively it suggests that convenience does positively influence more purchases of alcohol related products and there is a small gain in sales. However, this suggestion must be regarded with great care.

3.2.5 Agency Store Fiscal Performance

The program must recognize the importance of the agencies and their value in the distribution network. The improvement in service validates their position as a valued member in that network. To continue to secure that position, the agency program must be

economically successful. Without a sustainable profit and return on investment, the agency program will not be successful.

This project endeavoured to understand if each agent was achieving sustained profitability and a return on their initial investment. This was determined through an interview process rather then a financial analysis of the agents' income statement and balance sheets.

Consistently, all owners confirmed that they are pleased to have the agency contract. However, most owners suggested that they are making very little money on the program while others say they are just breaking even. One storeowner suggested "he should be profitable after five years". Agency discounts are specific to each agent and are based upon their submission in response to the tender process. All discounts range from 6% to 8 %, which is very low compared to other convenience store product lines. The agents identified the following costs as most significant and the reason for little profit on the NSLC products:

- Transportation and delivery
- Additional staff hours
- Inventory financing charges
- Store renovations
- Insurance premiums
- Breakage

There is a strong indication that sales and profits have increased for the traditional convenience store product lines, even though NSLC business alone has not been particularly profitable. This is encouraging since the margins on these lines are greater and contribute significantly to the bottom line. This is particularly significant for Needs and Green Gables, two franchises that are owned by TRA Foods, the main distributor to these two stores and collects margins in each point in the distribution channel. Also, there is a similar case at D J Corner Store in Salmon River, an agency that became a member of a convenience store buyers group and gains higher margins and incentives as a member of that group.

While exact sales numbers and margins for these product lines are not available from the agencies, financial information was provided during the interview process and presented in the table below. The following observations are presented for consideration:

- Non-NSLC business has significantly increased by a range of 12% to 35%. This should translate into an increase in gross profit that should significantly contribute towards the initial investment and labour costs.
- The initial investments range from $ 500 to $45,000
- Additional hours of work range from zero to 60 hours at an approximate rate of $ 8.00 per hour with benefits.

Agency	Estimated Increase in	Initial Agency	Staff Labour	Gross Profit

Name	Non-NSLC Sales	Investment	Increases	from NSLC Jan to May'02
Calder's Convenience Advocate	19% increase from $57 to $ $68,000 per month	$ 10,000 in renovations	No additional staff but owner working more hours	$ 3,579
Dominion Chair, Bass River	12% increase from $16 to $ 18K per week	$ 45,000 in renovations	No increase	$ 13, 142
Ossigners Grocery, Freeport	15 % increase to $6,000 per week	$ 2500 for security and alarm plus own labour	1 fulltime staff of 40 hours	$ 9,515
DJ Corner Salmon River	35 % increase to $12,000 per week	$ 5000 for shelving, refrigeration and alarms	1 part time with 20 hours	$ 9,754
Celtic Corner Iona	35 % increase to $ 10,000 per week	$ 500 for shelving and renovations	Staff increase of about 30 hours per week	$ 10,609
Needs New Ross	18% increase from $ 17 to $ 20 K per week	$ 20,000 for renovations and security	15 hours per week	$ 15,830
Green Gables Wentworth	21% increase from 14 to $ 17,000	$ 20,000 for renovations and security	15 hours per week	$ 14,718
Co-op Atlantic Whycocomagh	18% increase from $ 17 to $ 20 K per week	$ 30,000 for new staircase	60 hours per week	$ 18,489

Table 1 – Agencies Fiscal Performance

This information suggests the agency program is contributing to the viability and sustainability of each agency's business. The numbers must be regarded cautiously since they are affected by many factors such as weather, tourism, economic growth in the region, price increases in certain product lines, and competitive shifts where other convenience stores have left the market.

3.2.6 Impact on Agency Store Operations

The NSLC product line has significantly changed the business fundamentals of these agencies. The total store sales have doubled in some cases, which have created a significant amount of stress on the business processes and staff. The product line requires a significant amount of physical handling that is beyond the normal business practices of the convenience stores. This is particularly acute on Friday and Saturday where most purchases take place. Many of the staff find the physical labour a challenge. This has become increasingly more difficult as the summer months have increased the volume of product movement. Many agencies reported that restricted store/shelf space and cash flow makes it necessary to order products more often. While some stores rely on weekly third party delivery services, others rely upon their own means of transportation. These agents are visiting the host stores with their own vehicles and cannot carry a weekly supply of product. Hence, multiple trips are necessary.

The age of the all employees are usually greater than 19. Only the Whycocomagh agency has indicated that two staff members are less than nineteen years of age. However, they have not been allowed to handle any of the alcohol products thus leaving the movement of the inventory to the other staff members. The Wentworth store indicated that the age restriction has caused difficulties in recruiting student staff since they are not permitted to handle alcohol products. However, this appears to be ironic since many underage students in other locations serve tobacco products.

Financing store operations is a common business practice. Since the NSLC only accepts payment on order and no future terms are permitted, store operations are impacted. Some stores pay by credit card while most pay by check. However, one agent indicated that it needed inventory by the end of Saturday due to high levels of sales. Since the bank was not open, cash from the daily operations had to be used for purchases.

Another observation suggested by an agent was the significance of the five-year limitation of the contract with the agents. Many agencies continuously look to further expansion that will require investment financing from their financial institutions. Since the NSLC business has become such a significant proportion of their sales, the financial institution will require some assurance that the five-year contract will extend beyond this limit.

3.2.7 Other Support Programs

The agents were consistent in their response to the need for other NSLC support programs. They have a desire for more support programs such as:

- A seminar to review the guidelines presented in the Agency Store Manual since they are now more experienced and knowledgeable.
- A seminar to improve their knowledge of alcohol products.

However, they are not prepared to pay or share the costs. They view the discount as too low and cannot support other costs.

3.3 NSLC Management

The views of the NSLC management team emphasized that the program is for the improvement of customer service. Also, it is a means to gain incremental revenue but it is not expected to be significant. The team had some concerns regarding the impact upon its common infrastructure costs and its overall ability to meet its provincial fiscal mandate if the agency program expands hastily. However, while they thought this is a concern, it is not regarded as a significant risk at this time.

They believed the foundation of the program is one of partnership where the local host store plays a significant role in the distribution of the products through the agency channel. These stores are within close proximity to the agents, know the customers and marketplace conditions and can share this knowledge with the agencies. It was important

during the launch of the program and continues to be an important partnership in the success of the program. Management expected the host store to continue to be an integral component of the program if the agency program expands.

Those interviewed suggested the foundation of the program is to support the agencies in its business and not to impose restrictions that would be counter-productive in the everyday business operations of the agencies. The agents are independent and successful business people in their own right. They understand their position and unique attributes within their particular marketplace and the NSLC must not dictate how the agencies will run their business. The mandate of the NSLC is much broader than the focused mandate of the agencies.

Management thought NSLC must operate within a socially responsible manner and does not see the agency program compromising this principle. The agents distribute tobacco and lottery tickets that are governed by similar restrictions. The introduction of alcohol into their product lines is seen as extension of the agents' business services and processes.

When asked about discount levels, those interviewed thought the levels were fair but verification must continue. The 8 % target was based upon comparisons to other provinces. Management considered multi-tier pricing initially. Additionally, the tender process required the agency to propose their own discount level, which reflected their understanding of their business. As a result, there is a range of discounts that reflect the unique nature of each agency.

The management team believes the existing information management systems appear to be supportive of the program and the business. The point of sale systems, the inventory management system and the financial management systems address the requirements of the organization. The organization supports a web site that is predominantly used for information purposes. There is an on-line ordering process for the licensees but very few use it. There has been no requirement for further web services from the agencies. The team did not identify any problems with the current systems. The agents currently construct a report that is faxed to the corporate office on a monthly basis. This information is translated manually into the normal business reports. This activity is a possible target for automation.

3.4 Dept of Tourism and Culture

The Deputy Minister indicated that the agency program was about improving service by increasing the points of access, geographical proximity and reducing driving time. She believed the program was achieving these objectives. Leading up to the launch of the program, she thought there was an expectation that agencies were long overdue and tourists from outside the province expected to see them while visiting. There were some concerns from licensees that their business would be hurt from the competition. However, there has not been any indication of this. The department had not received any negative backlash from the community regarding the program.

While the program is in its initial stages, she suggests there are significant implications to opening this channel in the future and refers to the metaphor " ...the genie is out of the bottle". She went on to explain that more agencies are expected but there are a limited number of locations where an agency is appropriate under the current conditions.

Specific to the program, she would like to see more thought into its marketing strategy and branding identification. The signage is the only indication of the program and the signs do not reflect the unique position of the agency within the rural community or within the NSLC. She thought the agent's discount levels are competitive since the agents responded with a range of discounts through the tender process. However, she recognizes the margins are small and does not want the NSLC products to be a losing proposition or a "loss leader" for the agents.

3.5 Industry Associations

3.5.1 The Nova Scotia Wine Makers Association

The association is new and represents 6 wineries (4 grape and 2 fruit growers). It creates employment in Nova Scotia and currently sells directly through licensees, local winery stores and the local Halifax market. The association supports the agency program and believes "it is a move in the right direction". The members would like to sell to the agencies under a similar arrangement as they sell to the licensees. Under that arrangement, the members develop its own price structure and NSLC collects 5 % on all sales to the licensees. This would increase its volume, create more demand for its product and create more employment in the rural regions.

3.5.2 Canadian Restaurant and Food Service Association

The association represents 1200 stores in Nova Scotia and 20,000 employees. While the association has not completed a survey of its members, its spokesman was emphatic that " ...it is a very positive first step". He suggested that it provides convenience due to its location and it demonstrates that private agencies can retail products in a responsible manner. While the association views the program very positively in servicing the consumer, it does not see the program as a means to adequately service the licensees due to the lack of volume of inventory and variety of products.

The spokesperson for the association strongly emphasized his view that the agents are not making any money due to the small discount of 8% while at the same time, are working very hard due to the physical movement of the inventory. The agencies should be given more flexibility with less government or NSLC interference. The NSLC should "lighten up and follow the New Brunswick model".

3.5.3 Atlantic Brewers Association

This association represents four brewers in Atlantic Canada. The association re-iterated its past views and supports the agency program as a complementary channel to the existing NSLC retail network. It did not support full privatization and suggested that the NSLC follow the New Brunswick model.

The association views the program as a good means to meeting market demand and improving convenience and service to remote regions. Also, the program to date is a good test to determine how the agencies handle the sales of the product line. They have not heard any negative comments and assume that the program is working. The association wishes the program to expand but to proceed cautiously ensuring that it is running effectively with the proper policies and procedures.

3.5.4 Tourism Industry Association

This association represents 6000 firms throughout the province. It provides professional development, training and advocacy services. The association views the program as a positive first step and addresses service improvement in remote areas. However, the association only endorses the program in a restrictive manner.

The association believes that the sale of alcohol products should be predominantly through the licensees with "off premise" sales. The licensees are more familiar with the industry and by its nature can provide a more effective means of controlling the distribution and upholding the social mandate of the corporation. There is a wide network of licensees that are currently in place and can address the service requirements of most regions. The spokesperson believes the staff of licensees is experienced and knowledgeable in the trade and distribution of alcohol products. The licensees business is more dependent upon the revenue from the sale of alcohol and hence the firms are more likely to comply with the controls in the legislation such as restrictive selling to underage customers.

The association sees the agency discount as too low. This is presented within a broader context where it is believed that the NSLC does not view the licensees and agents as partners and customers. Hence, there is a need for a wholesale and distribution price framework that will encourage more innovative and entrepreneurial activities by the private sector. The spokesperson suggests the NSLC restrictions should be reduced and the agencies should be allowed to carry any product where a market niche can be developed.

Finally, the spokesperson suggested that expansion of this program should continue cautiously. Policies should be applied consistently within the industry. She encouraged more de-regulations of the industry and Sunday shopping should be permitted.

3.6 Licensee Report

Licensees within the region of the agencies were contacted for the purpose of understanding their impact within the market space. Both licensees who purchase from agencies, and others who continue to purchase directly from the NSLC were contacted. The following observations were drawn from their comments with details in the table below:

- Three agencies are selling to 11 licensees.
- All purchasing licensees are encouraged with the service level and are continuing to purchase more as inventory levels and selection improves.
- All non-purchasing licensees have not seen any impact upon their business except for the Whycocomagh Canadian Legion, where business is down by 50 %.
- One agency expressed an unwillingness to sell to licensees because of the additional reporting and labelling work required.

Agency	Licensee	Purchasing from Agency (Y/N)	Service / Comment
Calder's Convenience Advocate	Riverside Restaurant	No	No Impact
Dominion Chair, Bass River	Dianne's Restaurant	No	No Impact
	Five Island Restaurant	No	No Impact
Ossigners Grocery, Freeport	Freeport Legion	Yes	Good service, Great location
	Lavine's Restaurant	Yes	Not Available
	Briar Island Restaurant	Yes	Good service and will buy more from them
DJ Corner Salmon River	Cape View Restaurant	No	No impact
Celtic Corner Iona	Highland Heights Inn and Restaurant	No	No impact, very poor quality of service with low inventory
	Iona Legion	No	No Impact Low inventory due to agency financial troubles
Needs New Ross	New Ross Legion	Yes	Not available
	Highway Man Restaurant	Yes	Good Service
	Fire Department	Yes	Not available
Green Gables Wentworth	Wentworth Valley Motel	No	No impact Did not know they could buy Perceive a low inventory
Co-op Atlantic Whycocomagh	Vi's Restaurant	Yes	Great service / location
	Alison's Restaurant	Yes	Not available
	Lion's Club	Yes	Great Service

Agency	Licensee	Purchasing from Agency (Y/N)	Service / Comment
			"Can't say enough"
	Brook Village Hall	Yes	Not available
	Celtic Lobster Suppers	Yes	Not available
	Whycocomagh Legion	No	Big Impact Business is down 50%

Table 2 – Licensees Summary Report

In general, the NSLC should expect more sales to licensees from the agency channel. Many of these licensees have predictable sales patterns and can order alcohol products in advance. This will provide the agencies with the opportunity to plan for appropriate inventories. In addition, the agencies are closer to the licensees and this reduces the cost of transportation, which is one of the largest cost factors. Only responses about the Iona agency should be considered as requiring additional support by the NSLC. The two licensees expressed serious concern about the agency's financial and management capability to service the local market. It is very common to hear that the agency does not have inventory on a Saturday afternoon. This was particularly important to the Highland Heights Inn and Restaurant. It services many tourists in the area and its brochure indicates the close proximity of the liquor agency. The management expressed frustration when clients return from the agency indicating that could not purchase alcohol products because of a significant lack of inventory.

3.7 The Nova Scotia Government Employees Union (NSGEU)

The NSGEU represents three locals at the NSLC. Local 1670 includes approximately 100 retail store managers and Local 470 and 470 E includes approximately 500 retail staff and 40 head office clerical staff.

The union clearly opposes the agency program but supports the principle of improved customer service. The union management recognized that there were regions in the province that were under serviced and additional stores or service points were required. They are prepared to work with their employer and support extended hours, Sunday shopping, home delivery, sales kiosks and other improvements.

The union did not aggressively oppose the eight stores last year. They had just completed the privatization review of the NSLC and publicly fought in every way against it. However, there is a trend that indicates more agencies, private specialty stores and perhaps a migration of low profit stores in the future. This is a serious concern that will initiate loud and aggressive opposition.

The executive suggested the current stores produce high levels of profitability and efficient use of square foot resources. The employees offer good customer service, extensive product knowledge and are trained to maintain the social mandate of the

corporation. The work is physically demanding, the wages are fair to the employee and important to the small rural regions and community in general.

They stated that the hourly wage is always the argument used against the union and the corporation. However, the stores are profitable and they believe the general public supports them. The prices are not a high level of concern by the public. Beer prices have increased regularly but other alcohol products have not increased much. They believe prices are the same as other provinces and alcohol prices are close to the prices in the US when the exchange rate is considered.

The executive feels the agencies pay minimum wage and its employees are not trained or professionally prepared to offer a high level of service to its customers. They do not offer a wide selection and their knowledge of the product is limited. The employees are faced with the physical labour required to receive and shelve the product, which is difficult work for some of the employees. These working conditions are repaid with a minimum wage salary and there is no incentive to be diligent with control procedures to uphold the social responsibility mandate. The union believes therefore, underage minors or impaired customers will have access to purchasing these products since the employee will not take the risk of refusing the sale.

Finally, the union sees a new Board of Directors governing the corporation. This suggests that there is more freedom from government influence. Therefore, there may be a plan to open more agencies, privatized outlets, perhaps close some of the corporate stores and replace them with other agencies. This thought is further validated with the knowledge that the new president has a bonus plan based in part upon new agencies in the province. This is a very serious concern to the union.

Section 4 NSLC Store Impact Analysis

4.1 Introduction

The NSLC has a wide retail store network and frequently evaluates new store construction, moves and closures due to changing market conditions. With the new legislation, the organization has a new option. The corporation can license a new private agency but this generates several questions. Some have expressed the concern that agencies are taking or cannibalizing sales from other NSLC stores within the proximity and generating very little new business growth. Others suggest that the improvement to access and convenience will generate new business and higher revenues for the NSLC. This study has reviewed this and several other factors which management must consider when faced with such a decision.

4.2 New Growth Analysis

This study considered if the agency generated new business or did it take business away from other corporate stores. The sales for each respective region were analyzed for the period of January to May of 2001 and 2002. The methodology involved the construction of an estimated sales volume if the agency did not exist in the region, which was compared to the actual sales in the region with the agency. (Table 3 provides an overview with details available in Appendix B). The following observations are presented for consideration:

- New business growth rates due to agency store location and convenience range between 3 and 10 %.
- The highest growth rate is the New Ross region with 9.45% and the Advocate region with 8.82%
- All others regions appear to have a lower but similar rate of growth of 3 to 4% due to agency convenience.

Store / Region	Actual Sales Jan to May 2001 ($000)	Estimated Sales Jan to May 2002 ($000) (without agency)	Actual Sales Jan to May 2002 ($000) (with agency)	Increase of sales of actual 2002 over estimated 2002
Freeport Region	$ 1,298	$ 1,337	$ 1,378	3.07 %
French Shore Region	$ 3,618	$ 3,727	$ 3,863	3.66 %
Whycocomagh Region	$ 2,785	$ 2,859	$ 2,996	4.08 %
Advocate Region	$ 539	$ 561	$ 610	8.82 %
New Ross Region	$ 2,087	$ 1,815	$ 1,986	9.45 %

Iona Region	$ 8,810	$ 9,266	$ 9,582	3.41 %
Bass River Region	$ 3,960	$ 4,261	$ 4,445	4.33 %
Wentworth Region	$ 4,432	$ 4,176	$ 4,356	4.30 %

Table 3 – Regional Net New Growth

This suggests that the convenience of the agency stores may increase sales by 3 to 10 %. However, it is strongly recommended that caution be used when making any generalizations about this information. There are various factors that affect the business where qualitative and quantitative controls cannot be applied.

4.3 NSLC Store Impact

All agency business is not new business based upon the outcome from the above analysis and other considerations. This report considered the impact of sales on other non-host NSLC stores within the region of the agency. The sales for various corporate stores were analyzed for the period of January to May of 2001 and 2002. The methodology involved the construction of an estimated sales volume for these stores if the agency did not exist in their region, which was compared to the actual sales for the store with the agency. (Table 4 provides an overview with details available in Appendix B). Based upon the analysis for this report, the following stores appear to have experienced significant declining growth attributed to the presence of the agencies in their regions. (Joggins is higher then normal but it is skewed due to the small volume of business.)

Store / Region	Actual Sales Jan to May 2001 ($000)	Estimated Sales Jan to May 2002 ($000) (without agency)	Actual Sales Jan to May 2002 ($000) (with agency)	Increase of sales of actual 2002 over estimated 2002
Joggins	$ 137	$ 142	$ 133	- 6.65 %
Chester	$ 1,011	$ 1,041	$ 1,025	- 1.57 %
Sydney Kmart	$ 1,989	$ 2,088	$ 2,053	- 1.70 %
Oxford	$ 321	$ 334	$ 332	- 0.55 %
Tatamagouche	$ 553	$ 575	$ 552	- 4.02 %

Table 4 – NSLC Store Impact Analysis

4.4 Host Store Impact Analysis

Each agency primarily ordered product from a host store. All sales transactions were discounted as per the terms and conditions of the agency contract. All products were delivered through the host store. This new business model suggests certain impacts upon the host store. This report reviewed four elements including the 1) net sales, 2) labour costs, 3)total expenses and 4) gross operating profit.

The methodology produced a table for each element with six columns indicating the store name, the actual performance for the January to May 2001, an estimated performance expected without the agency business for Januaury to May 2002, the actual performance with the agency business for January to May 2002 and the respective percentage increase/decrease comparisons.

4.4.1 Net Sales Comparison

The following table presents a review of the sales of the host stores for the first five months of the 2001/2 years. It clearly indicates:

- All stores reported actual sales increases for year over year range from 5% to 33%
- Six host store sales increased over estimated sales by a wide range of 1 to 29 %.
- The host stores in Baddeck and Middleton reported the most significant increases of 21% and 29% respectively. It is suggested that the Middleton store had such a high positive experience due to the Wentworth ski season since the Wentworth agency purchases from Middleton. Also, the Baddeck store had some renovations, which possibly caused a positive influence beyond the agency program.

Store / Region	Actual Sales Jan to May 2001 ($000)	Estimated Sales Jan to May 2002 ($000) (without agencies)	Actual Sales Jan to May 2002 ($000) (with agencies)	Increase of sales of actual 2002 over actual 2001	Increase of sales of actual 2002 over estimated 2002
Digby	$ 1,298	$ 1,337	$ 1,368	5.39 %	2.32 %
Parrsboro	$ 402	$ 418	$ 422	5.13 %	1.09 %
Truro	$ 3,558	$ 3,842	$ 3,995	12.3 %	3.98 %
Baddeck	$ 764	$ 818	$ 996	30.36 %	21.83 %
Sydney River	$ 3,892	$ 4,165	$ 4,114	5.68 %	-1.23 %
Meteghan	$ 865	$ 882	$ 962	12.33 %	9.05 %
Middleton	$ 716	$ 737	$ 953	33.13 %	29.25 %

Table 5 – Host store net sales comparison

4.4.2 Labour Costs Comparison

All products flowed through the host store and on to the agency. Therefore, there was an expectation that the additional sales and product movement would result in additional labour costs for the host store. Table 6 presents a review of the labour costs of the host stores for the first five months of the 2001/2 years. It clearly indicates:

- All host stores decreased their actual labour costs year over year by 6% to 22%
- All host stores decreased their labour costs by 6 to 25% when the actual labour costs were compared to the estimated labour costs for the 2002 period.

These numbers indicate that the stores operated more efficiently year over year with the agency business. This was consistent with management's focus on attaining its corporate goals of reaching its target revenue return to the province without price increases to the public.

Store / Region	Actual Labour Costs Jan to May 2001 ($000)	Estimated Labour Costs Jan to May 2002 ($000) (without agency)	Actual Labour Costs Jan to May 2002 ($000) (with agency)	Increase of actual 2002 over actual 2001	Increase of actual 2002 over estimated 2002
Digby	$ 69,412	$ 70,106	$ 58,280	- 16.04 %	- 16.87 %
Parrsboro	$ 40,744	$ 41,151	$ 36,750	- 9.80 %	- 10.70 %
Truro	$ 153,691	$ 155,228	$ 141,603	- 7.87 %	- 8.78 %
Baddeck	$ 72,651	$ 76, 284	$ 59,313	- 18.36 %	- 22.25 %
Sydney River	$ 202,066	$ 212,169	$ 157,706	- 21.95 %	- 25.67 %
Meteghan	$ 57,144	$ 57,715	$ 51,626	- 9.66 %	- 10.55 %
Middleton	$ 56,751	$ 57,319	$ 53,408	- 5.89 %	- 6.82 %

Table 6 – Host store labour cost comparison

4.4.3 Total Expenses Comparison

As mentioned previously, additional workload and other expenses were expected on the host store as a result of the agency business. The following table presents a review of the total expenses of the host stores for the first five months of the 2001/2 years. It clearly indicates:

- All host stores had lower costs of operations for actual and estimated year over year business.

Store / Region	Actual Total Expenses Jan to May 2001 ($000)	Estimated Total Expenses Jan to May 2002 ($000 (without agency)	Actual Total Expenses Jan to May 2002 ($000) (with agency)	Increase Actual 2002 over Actual 2001	Increase Actual 2002 over Estimated 2002
Digby	$ 111,369	$ 112,276	$ 104,442	- 6.22 %	- 6.98 %
Parrsboro	$ 78,294	$ 78,868	$ 69,549	- 11.17 %	- 11.82 %
Truro	$ 319,581	$ 321,678	$ 306,260	- 4.17 %	- 4.79 %
Baddeck	$ 141,697	$ 146,324	$ 105,908	- 25.26 %	- 27.62 %
Sydney River	$ 358,561	$ 370,817	$ 313,910	-12.45 %	- 15.35 %
Meteghan	$ 93,594	$ 94,358	$ 87,001	- 7.04 %	- 7.80 %
Middleton	$103,831	$ 104,561	$ 99,837	-3.84 %	- 4.52 %

Table 7 – Host store total expense comparison

4.4.4 Total Gross Operating Profit Comparison

The following table presents a review of the total gross operating profit of the host stores for the first five months of the 2001/2 years. It clearly indicates:

- All host stores improved their gross operating profit year over year and when agency business is considered.
- The stores in Baddeck and Middleton had profit increases of 53 % and 47 % due to increased sales and with reduced operating expenses.

Store / Region	Actual Gross Operating Profit Jan to May 2001 ($000)	Estimated Gross Operating Profit Jan to May 2002 ($000) (without agency)	Actual Gross Operating Profit Jan to May 2002 ($000) (with agency)	Increase of Actual 2002 over Actual 2001	Increase of Actual 2002 over Estimated 2002
Digby	$ 534,997	$ 553,481	$ 591, 043	10.48 %	6.79 %
Parrsboro	$ 110,977	$ 117,974	$ 134,135	20.87 %	13.70 %
Truro	$ 1,420,170	$ 1,557,256	$ 1,695,392	19.38 %	8.87 %
Baddeck	$ 240,627	$ 262,763	$ 402,599	67.31 %	53.22 %
Sydney River	$ 1,507,540	$ 1,625,911	$ 1,721,829	14.21 %	5.90 %
Meteghan	$ 307,641	$ 318,914	$ 394,189	28.13 %	23.60 %
Middleton	$ 249,981	$ 259,862	$ 383,389	53.37 %	47.54 %

Table 8 – Host store operating profit comparison

4.5 Financial Breakeven Contribution

The NSLC will continue to evaluate new retail outlet opportunities throughout the province. The agency program provides a new option to deliver products and services to the public. Management must consider many factors in its decision. One aspect of this decision is the profit contribution of sales through a corporate store as compared to profit contribution from sales through an agency. Table 8 presents such as comparison.

The table presents a corporate store approach based upon the income statement for an average class one store for the first five months of this year. The agency approach is an analysis of the profit contribution based upon the same net sales as before but with the

agency discount and other additional costs added to the host store to support the agency relationship.

NSLC Corporate Store Approach		Agency Approach	
	Class 1 YTD May'02		
Net Sales	$ 532,018	Sales	$ 532,018
Cost of Sales	$ 260,360	Discount	$ 42,561
Gross Profit	$ 271,658	Net Revenue to NSLC	$ 489,457
		Cost of Sales	$ 287,290
		Gross Profit	$ 202,167
Store operations		Host Store Incremental Operating Expenses	
Labour	$ 41,963	Labour	$ 5,000
Occupancy	$ 16,832	Occupancy	
Depreciation	$ 5,913	Depreciation	
Other Store Expenses	$ 15,926	Other Store Expenses	$ 1,592
Total Expenses	$ 80,634	Total Expenses	$ 6,592
Gross Operating Profit	$ 191,024	Gross Operating profit	$ 195,575
		Host Store Incremental Expenses	
Admin Expenses	$ 21,264	Administrative Expenses	
Other Expenses	$ 3,594	Other Expenses	
Other Revenue	$ 4,127	Other Revenue	
Income from Operations	$ 170,293	Income from Operations	$ 195,575

Table 9 – Financial break even analysis

The table indicates:

- The income from operations is substantially higher under the agency approach since the allocation of administrative overhead is not applicable.
- The gross operating profit of the agency approach is slightly higher than the corporate store.
- The expenses of the corporate store ($ 80,634) are higher than the discount of the agency ($ 42,561) thus resulting in a higher gross operating profit in the agency approach even when additional labour costs have been applied at the host store.

This illustrates the effect of the administrative overhead expenses on the income from operations bottom line. Clearly, those allocations are not applicable to agencies and hence the profit contribution is substantially higher. This is only applicable when the current number of stores is available to share the common administrative expenses.

In the future, if there were a migration of existing stores to agencies, then the allocation of common overhead expenses would need re-distribution. If only a few stores migrated to the agency approach, then the impact would not be substantial. However, if a large number of stores were migrated to an agency approach, then further analysis is required since the amount of overhead expenses may need some rationalization. This is beyond the scope of this analysis but may be necessary as a part of a long-term business plan for the organization.

Section 5 Social Responsibility

5.1 Introduction

There has been some public concern that the social mandate of the NSLC could not be enforced by private agencies. Private enterprise's ultimate objective is selling its product and generating profits. This objective conflicts with business's refusal of a sale to a minor or to a customer who is impaired. This is further compromised when an employee receives a low wage, has minimum job security and has little motive to enforce such regulations. From the interviews of the various stakeholders, it is clear that this concern is not substantiated.

5.2 Check 25 Program

The NSLC has a check 25 program where the staff is informed of the guidelines on selling to minors, requesting identifications when appropriate and maintaining statistics by the stores. Through the interview process, it was found that all agents were very sensitive to underage selling to minors and regularly asked for identifications. The owners understood that the agency program could be revoked if this policy was not upheld. The owners clearly informed the staff of this policy and knew that it was practiced regularly, although statistics were not maintained. In some cases, staff was notified that they were personally liable for selling to underage customers and subject to legal proceeding if they failed to comply. The agents suggested this was not a significant issue since they applied similar restrictions on the sale of tobacco and lottery tickets regularly.

5.3 Selling to Impaired Customers

All agents indicated that during the last six months, they have refused to sell alcohol to customers that were impaired. They all agreed that it is a very infrequent event. A common pattern of behaviour seems to take place in those cases. Usually, a local customer who is known to have a alcohol addiction problem will visit the agency on more than one occasion during the same day. Eventually, the staff will refuse to sell the product. In all cases presented by the agents, the customer left the store without incident. Some agents discussed at length, those situations where it is difficult to determine if the customer is impaired. Some times these doubts are discussed with other employees before a response is taken. The owners or managers usually live in the community and are sensitive to the safety of its residents, especially children. These interviews indicated the staff maintains a responsible approach to the marketing of alcohol in their communities. This commitment appears to be more entrenched in civil and humane reasons then the threat of losing the agency or being subject to legal proceedings.

5.4 Community Support

These interviews indicated the position of these agencies within their respective communities. Without exception, all agencies continue to support Canadian Legions, Lion's clubs, schools, heritage society, 4H clubs, fire-halls and various other activities. All agencies continually have ticket displays for local fundraising events. They contribute to yearbooks, school bursary programs and donations. They offer special pricing on convenience store products to local social fundraising events. One agency was participating in a fundraising event for a local resident that needs a specialized operation for a unique health care condition. The agencies are entrenched in their respective communities and participate in many social support programs.

5.5 Store Security

Store security is an important issue for all agencies. It is more important for tobacco products that are viewed as a higher risk item. The size and convenience to steal these products is more attractive than alcohol products. However, all stores are concerned with security and the following is in an indication of the measures that the owners have taken:

- Five out of 8 agencies have security camera systems
- Seven out of 8 agencies have alarm systems
- Four out of 8 agencies have some form of secure enclosure for alcohol products
- All agencies have at least one of these measures implemented in the store
- Two stores have all three measures implemented in the store

5.6 RCMP Report

Brief interviews were held with all of the appropriate RCMP detachments that cover the agency regions. All detachments affirmed that the agencies have not increased the number of alcohol related crimes or incidents in the regions. The only detachment that reported any incident was in Iona where there was a break-in, one attempted arson and one shop lifting charge.

During the interview process, some of the RCMP members commented that it probably reduced or put some of the bootleggers out of business. Some indicated that they thought the number of impaired drivers on the road is less since they do not have to drive as far but this cannot be statistically proven. In general, all detachments knew there was a new agency in their region. Some of the officers had concerns at first, when the agency opened. However they have been pleasantly surprised and as one officer reported " ...we haven't heard didley."

Section 6 Recommendations

The following recommendations are presented as a result of the various interviews and research gathered during the project.

6.1 Red Tags

The red tags that are displayed on the shelves of corporate stores, indicate sales and special promotions. These need to be available to the agencies. They reinforce the equal pricing policy between corporate stores and agencies. Consumers who frequent both types of outlets are suspect of the agency and can undermine the good will of the program.

6.2 NSLC Bags

The corporate stores have a plentiful supply of bags that are durable and safe. The agencies requested the option to purchase these bags since it is assumed that the costs for these bags must be low, based upon the large volume ordered by NSLC.

6.3 Annual Sales Notification

There is a monthly price notification process that works effectively. However, the corporate stores hold annual sales to liquidate some slow moving inventory. There was an incident when an agency was not notified of the sale in January and a customer confronted an agent with the situation. Frequent communications to the agencies is essential and a review of the communication process is recommended.

6.4 Delivery Costs

The agencies greatest concern is the cost of product transportation and delivery. Agencies that rely upon third party carriers find the cost of delivery extremely expensive. Other agencies rely upon their own transportation but this is equally expensive. This situation is further emphasized with the limited shelf space, cash flow, limited delivery capacity and the increased amount of inventory required during the summer months. A review of this issue by a stakeholders group including the agents, the breweries, and the NSLC is suggested.

6.5 Monthly Reporting

Agents remit a monthly report on sales for the past month. The report includes sales by currency and by alcohol volume. The volume amount is difficult to determine since many agencies do not have the appropriate point of sale or inventory management systems. Therefore, some agencies spend an extensive amount of effort at month-end to construct the report. Others are less diligent and report volumes that are inaccurate. A review of the reporting process with the agencies is recommended.

6.6 Discount Levels

The agencies receive discounts on products based upon their respective agreements with the NSLC. The discounts range from 6 to 8 %. While all agencies accept the terms and conditions of their respective agreement, there is a general wish for higher discounts. While higher discounts may not be prudent at this time and under the existing model, a specific review of the discount policy and its comparison with other provinces is strongly suggested. Factors that should be considered as a minimum include: delivery costs of beer and alcohol, payment terms, product returns, monthly price increase, the definition of the discount and how it is applied, and taxes that must be remitted from the discount.

6.7 Payment Terms

The agencies must pay for all products upon order in full. Payment methods include cash, check, credit cards etc. These terms imply that the inventory carrying costs must be borne by the agency. This was particularly acute during start-up when most stores needed approximately $ 20,000 for its initial purchase. This situation does not allow the agency to resell the products and generate the cash flow for payment. This is inconsistent with most other retail/distribution networks. This frustration is further enhanced knowing that the payment must include all the tax portion of the price. The payment terms need to be reviewed with alternative solution considered.

6.8 Underage Employees

The current guideline stipulates that all employees that handle the alcohol products must be nineteen and older. Therefore, most agencies only hire employees that comply with this. Only one agency has employees under this age but they are restricted from handling the product. This guideline has caused stress on some of the agencies. In one agency, high school students are a vital supply of labour. With this guideline, it has become difficult to recruit appropriate staff. Also, the physical demand of product movement has placed significant stress on some of the employees who are unable to cope with the responsibility. This situation is further frustrated by the conflict with the sale of tobacco products. In this case, there are underage employees handling and selling tobacco. Hence a review of this guideline is requested.

6.9 Signage

Corporate stores and the agencies used the same NSLC Liquor signage. A new sign should be available that differentiates the two types of outlets. It should reflect a market position of the program and its place among its stakeholders.

6.10 Market Identity and Branding

The agency store program has a separate mandate and deserves more thought into the market position and identity. A strategic marketing plan needs to be developed at an appropriate time when there is a clearer direction for its future.

6.11 Nova Scotia Wines Distribution

The Nova Scotia wine industry is still in its early formation. However, there has been a recommendation by the industry association that supports the ability of its members to market through the agencies under similar arrangement as through the licensee market. However, this may contravene some of the international trade agreements. Further investigation and due diligence into this request is suggested.

6.12 Agency Contracts

The agency contract is based upon a 5-year agreement with a renewable 5-year extension. Agencies will search for ways to expand their business and may require assistance from a financial institution. The basis of renewal and maintaining the agency status will be required when the financial institutions wish to evaluate the risk potential of its client. The program will need some evaluation criteria and performance measurements as the end of the first period approaches.

6.13 Licensees Business

The licensee can expect a variety of benefits from the local agency. Currently, the most important is its close location that translates into less delivery costs. However, there are some deterrents that affect this relationship. The labeling process for alcohol products is cumbersome for the agency, which translates into increased labour cost. While the Alcohol and Gaming Authority requires this process, discussion between the NSLC and the Authority should find an alternative approach.

6.14 Agency Training

The agencies' staff requires product and public policy knowledge that can be relayed to customers. This has to be an ongoing activity and cannot be viewed as a single seminar. The corporation has a training strategy for its employees with seminars and informational materials available. The strategy requires a review and its target group should include the agencies staff.

6.15 Individual Beer Bottle Sales

The agencies experience beer carton destruction due to unpredictable circumstances. Rather then discarding or returning the entire carton, the agencies expressed an interest in selling beer by the bottle. Currently, this undermines current guidelines and prices. A review of the situation is recommended.

6.16 Agencies Sales Reports

The agencies have requested a monthly sales report of all the agencies. They could use the report for performance comparison purposes and correct their business activities as required.

Section 7 Conclusions

The following conclusions and observations are presented for consideration as the management team develops its position for the agency program.

7.1 Service Delivery

The agency program was introduced to improve service and access to remote regions where corporate stores were not feasible. The program objective is clear and the agencies are attaining it. In some respects, it can be argued that it outperforms the corporate stores. It provides longer hours of operation, one stop convenience, improved accessibility, and supports community based programs in a variety of ways. These are significant attributes that may counter the value elements of product knowledge and product variety that the corporate store delivers.

7.2 Agencies Financial Sustainability

The sales of all agencies have increased substantially since they have become the NSLC representative in their region. The profits from the NSLC product line are marginal based upon their discount level. However, there is a substantive increase in sales and profits from non-NSLC products. Overall, the agency program is a financially sustainable initiative for each agent.

7.3 Incremental Business

The agencies provide improved convenience to customers. It appears that some incremental sales occur as a result but it is difficult to precisely quantify these amounts. There is some indication, however, that the agencies produce from 3 to 10 % additional sales for the corporation. This can be attributed to various changes to consumer purchase behaviour. Consumer behaviour may change where more frequent trips to the local agency replace the planned trip to the distant corporate store. Visitors to the region purchase products that were available. Purchases from the local bootlegger have migrated to the agency and the price differential results in additional purchases.

7.4 Profit Contribution

The agencies business contributes more profit to the organization than similar sales through the corporate stores. The costs of corporate store operations are generally higher than the discounts to the agency. The profit contribution increases substantially when corporate expense allocations are not applied to agency business.

This situation only applies to the existing business distribution model where a decision to open a new store or agency must be made. If a corporate store was to be replaced by an agency, then the allocation of corporate expenses need to be redistributed over the remaining stores resulting in a lower profit for those stores. If a few stores were migrated, then the profit impact would not be significant. However, if a large number of stores were selected for a migration, the total corporate expense structure would require further analysis.

7.5 Corporate Store Impact

Most host stores have experienced higher than average profit performance. This has been accomplished with sales increases and lower operating costs resulting in higher profit contribution. The combination of the agency business and the focus on operational efficiency has resulted in a highly productive environment under the existing business model.

There have been some stores that have lost sales due to the location of the agency. Joggins and Tatamagouche have been more negatively impacted by the program but the lost sales have been offset by improved operational efficiencies.

7.6 Social Responsibility Mandate

The agency program has not compromised the social responsibility mandate. The agency staff values the importance of this policy within its community framework. The staff does not sell products to minors and are diligent in not selling to impaired customers. There has not been any increase into alcohol related crime or incidents as reported by the RCMP. The agencies have imposed appropriate security provisions within their premises and the agencies are effectively applying prudent guidelines for a safe Nova Scotia.

7.7 Strategic Program Business Plan

The scope of this analysis does not include the future of the agency program but rather a review of its current status and suggested improvements from its stakeholders. However, there is a significant need for a strategic business plan for the agency program. This plan must consider public views as well as those of the employee's union. Once this framework has been adopted, many of the other recommendations can be implemented.

As a final observation, the program is successful within its current mandate. The level of service to the remote regions has increased substantially, the social mandate of the organization has not been compromised and the financial contribution to the NSLC has increased. The NSLC has an alternative viable option to include in its evaluation for ways to improve customer service and profitability.